HOUSING MARKET OUTLOOK
Trois-Rivières CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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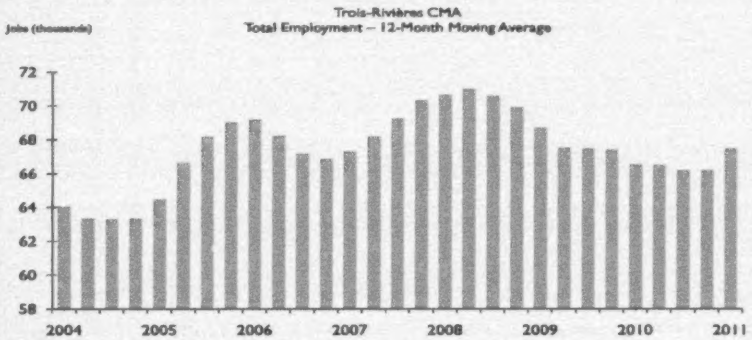
Job market: a moderate recovery

The job market in the Trois-Rivières census metropolitan area (CMA) will progressively show renewed growth, after having been rather sluggish for several years. Since 2008, the slowdown in demand from the area's key trade partner, the United States, combined with the strength of the Canadian dollar against the U.S. dollar, had negatively affected the labour market in the area. The job losses were accumulating, as the unemployment rate rose. However, while manufacturing companies were having difficulty in filling their order books, the construction sector (residential and non-residential) stayed the course and did quite well, limiting the repercussions of the recession.

Figure 1

Moderate Recovery for the Job Market



Source: Statistics Canada

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**The forecasts included in this document are based on information available as of April 28, 2011.*

For 2011 and 2012, employment will grow in the Trois-Rivières area. Already, the first quarter of 2011 reflects this trend, with an increase of 5 per cent in the number of jobs (over the first quarter of 2010). It should be noted, however, that this recovery will take place gradually. In fact, by 2012, the gains made will not be sufficient to bring employment back to its pre-recession level in the area.

The CMA will be able to count on a strong service sector (finance, insurance, wholesale and retail trade) and a timid recovery of the manufacturing sector, as the improvement in global economic conditions will progressively stimulate demand. Manufacturing companies in the area will remain vulnerable, though, on account of the uncertainty related to this economic recovery and the strength of the Canadian dollar. However, activity in the construction sector will be less significant in 2011 and 2012 than in past years. After some exceptional years, during which record numbers of housing starts were registered in the Trois-Rivières area, residential construction will slow down. Starts will decrease to volumes more in line with household formation levels. In the case of non-residential construction, the year 2011 will mark the gradual end of the investments made under the government stimulus programs. Starting in 2012, however, the area could benefit from significant work to rebuild a nuclear power plant (~$2 billion).

The number of jobs in the Trois-Rivières CMA will register gains of 2.5 per cent in 2011 and 2.0 per cent in 2012. This employment recovery, while modest, after several years of job losses in area, will be favourable overall to the residential real estate market in the CMA in 2011 and 2012.

Demographics: less strong migration

Migration, for its part, will slow down slightly in the CMA in 2011 and 2012. After several very strong years in this regard, net migration in the area is expected to be slightly less significant than in past years. This decline will result from a reduction in the targets set by the Quebec government for the number of immigrants admitted for 2011 and 2012 (from 55,000 to 50,000 newcomers). Despite the sluggish job market, the Trois-Rivières CMA had managed to attract a good number of migrants in recent years, by benefiting from the rise in these targets. It should be noted that the Trois-Rivières area, where home prices and rents are among the lowest in the province, may be appealing to many migrants. The decrease in net migration levels in the CMA for 2011 and 2012 will therefore slow down demand for housing, especially rental dwellings.

Mortgage Rates

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

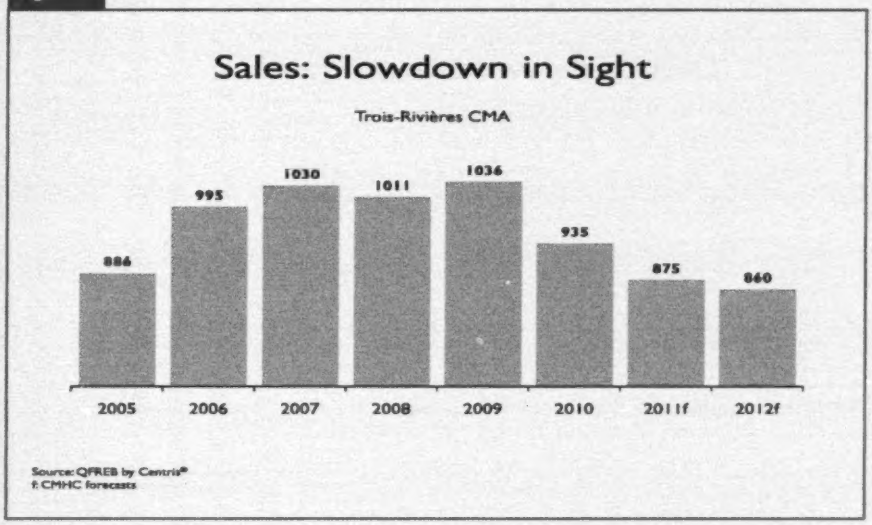
Resale market easing continues

The vigorous activity that has marked the Trois-Rivières resale market in recent years will moderate in 2011 and 2012. Resales have been very strong in the last five years, stimulated in large part by exceptional financing conditions. The robust demand has brought about high sales volumes and relatively low inventories of properties for sale, which has kept market conditions relatively tight. As a result, the price increases have been significant. The average price* of residential properties rose from $116,500 in 2006 to $152,000 five years later. Consequently, although mortgage rates remain relatively low, the major growth in home prices in recent years has made the market less affordable, especially for first-time buyers.

For 2011 and 2012, even with the timid recovery of the job market, which should stimulate the resale market to a certain extent, less favourable demographic factors will limit transactions. As a result, there should be 875 MLS® sales registered

** According to the data of the Québec Federation of Real Estate Boards (QFREB).*

Figure 2



in the CMA in 2011 (-6 per cent) and 860, in 2012 (-2 per cent). That being said, even if financing conditions will remain favourable, the anticipated small mortgage rate hikes could cool the ardour of some buyers, particularly in 2012.

As for the inventories, the number of homes for sale on the market is growing at a relatively strong pace. From about 500 in 2010, the average number of properties with "For Sale" signs rose to more than 650 at the end of the first quarter of 2011, a level not seen in the area since 2002. At the same time, listing periods are getting longer. This trend will continue in 2011 and 2012. Consequently, the anticipated slowdown in sales, combined with the rising inventories, will cause the market to ease. As a result, the power relationship, which has been favouring sellers for nearly 10 years, will progressively shift into the neutral zone by the end of 2012. The resale market will therefore move closer to a balanced situation in 2011, and then achieve this balance during the course of 2012. Sellers and buyers will therefore be on a level playing field during negotiations, for the first time since the early 2000s.

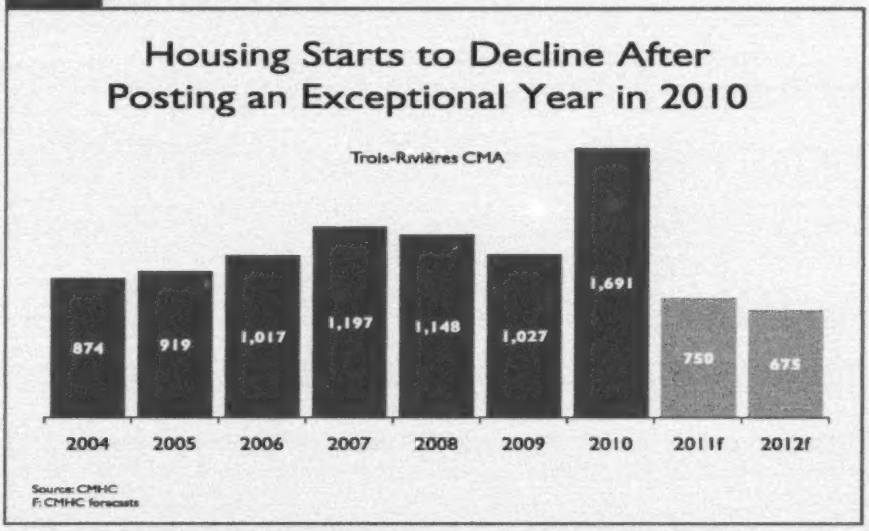
Given the forces at work, the price increases will be less significant. The average price of residential properties will reach $158,000 in 2011 (+4 per cent) and then $162,000 in 2012 (+2.5 per cent).

Residential construction to slow down after exceptional years

Since 2002, residential construction has been very strong in the Trois-Rivières CMA, and high starts volumes have been registered. This vigorous activity has been attributable to the significant rental housing supply, with many new rental units having been built in the area in recent years. Rental housing starts have effectively been the driving force behind residential construction, accounting for more than half of all new dwellings in the CMA. Over the next two years, however, demand for rental units will weaken, which will contribute to a slowdown in housing activity.

The easing of the rental market that began in 2009 therefore continued in 2010, as the vacancy rate rose to 3.9 per cent. The formation of fewer young households (15-24 years), combined with less significant migration, will lead to a weaker demand for rental housing in the CMA. As well, since 2010, more rental units have been available on

Figure 3



the market, and renters now have a broader choice, in contrast to the conditions that prevailed in the mid-2000s, when very few dwellings were vacant. With this greater supply of vacant existing units, the construction of new dwellings will slow down. Lastly, even though the rents in the CMA are among the lowest in the country, the prices for homes (existing and new) are also relatively low. Since financing conditions will remain favourable over the next two years, the movement to homeownership will free up some rental dwellings. As a result, rental housing starts should reach 300 units (-73 per cent*) and 250 units (-17 per cent) in 2011 and 2012, respectively, in the Trois-Rivières CMA.

The construction of freehold homes** will also slow down. Even with the timid recovery of the job market and the still relatively favourable financing conditions, the lower migration and the less significant formation of young households (24-54 years), together with a broader choice of existing homes for sale, will cause a slight decline in construction. As a result, there should be 450 freehold homes (around 300 single-detached and 150 semi-detached or row houses) started in the CMA in 2011 (-20 per cent). For 2012, 425 freehold houses (some 275 single-detached and 150 semi-detached or row houses) are expected to get under way (-6 per cent).

In all, starts in the Trois-Rivières area should reach 750 units in 2011 (-56 per cent) and 675 units in 2012 (-10 per cent). For the first time in several years, rental housing starts will register decreases in 2011 and 2012. This slowdown will bring total starts back to volumes more in line with the overall household formation level of about 600 in the area.

Rental market stable after easing

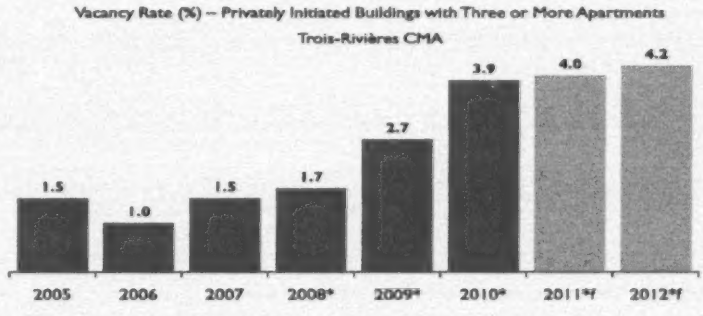
Since 2009, sustained rental housing construction has met up with declining demand, thus increasing vacancy rates.

While the supply of new rental housing units is bound to decrease, a less significant demand will lead this market to stabilize over the next two years. A modest economic recovery and the slowdown in the formation of young households (15-24 years)—an active group on the rental market—will result in a decrease in rental housing demand in the Trois-Rivières area. In response to this decline, supply will adjust, and rental housing production will slow down, such that the market will remain steady. Consequently, the vacancy rate will stay relatively stable, at about 4 per cent in 2011 and 2012.

These less tight market conditions will bring about less pronounced rent increases. The average rent for two-bedroom apartments will therefore attain $550 in 2011 and $565 in 2012.

Figure 4

Rental Market to Remain Stable After Easing in 2010



Source and forecasts: CMHC
* Rental housing units for seniors were withdrawn from the survey universe.

** It should be noted that the year 2010 was marked by an exceptional one-time level of activity of more than 500 new housing units for seniors in the CMA. No starts of this type are expected in 2011 or 2012.*

*** Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).*

Forecast Summary Trois-Rivières CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	1,011	1,035	933	875	-6.2	860	-1.7
MLS® Active Listings	531	455	518	625	20.7	675	8.0
MLS® Average Price ($)	138,366	142,048	151,937	158,000	4.0	162,000	2.5
New Home Market							
Starts:							
Single-Detached	373	375	345	300	-13.0	275	-8.3
Multiples	775	652	1,346	450	-66.6	400	-11.1
Starts - Total	1,148	1,027	1,691	750	-55.6	675	-10.0
Average Price ($):							
Single-Detached	195,052	199,774	209,570	222,000	5.9	232,000	4.5
Rental Market[2]							
October Vacancy Rate (%)	1.7	2.7	3.9	4.0	_	4.2	_
Two-bedroom Average Rent (October) ($)	505	520	533	550	_	565	_
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	69,900	67,400	66,200	67,850	2.5	69,200	2.0
Employment Growth (%)	-0.6	-3.6	-1.8	2.5	-	2.0	-
Unemployment rate (%)	8.0	8.8	9.1	9.0	-	8.8	-
Net Migration	1081	798	825	700	-15.2	700	0.0

[1] *Source: QFREB by Centris®*

[2] *Privately initiated rental apartment structures of three units and over*

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC forecasts (2010-2011)

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